

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE-BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-007
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE-BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

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AUDIT REPORT NUMBER

#09-007

10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE-BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Joan Haskins, President
Board of Directors
10-A DAA, Tulelake-Butte Valley Fair
800 South Main Street
Tulelake, California 96134

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 10-A District Agricultural Association (DAA), Tulelake-Butte Valley Fair, Tulelake, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 10-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

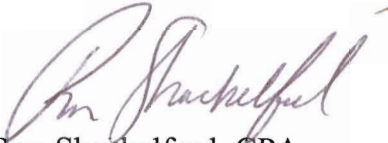
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 10-A DAA, Tulelake-Butte Valley Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 10-A DAA, Tulelake-Butte Valley Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-007, on the 10-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 10-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is written over a light gray rectangular background.

Ron Shackelford, CPA
Chief, Audit Office

July 30, 2009

**10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE - BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111-116	\$ 362,053	\$ 350,948
Accounts Receivable, Net	131	8,479	20,947
Land	191	52,888	52,888
Buildings and Improvements, Net	192	901,108	930,237
Equipment, Net	193	10,228	8,192
TOTAL ASSETS		<u>1,334,756</u>	<u>1,363,212</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	13,940	12,619
Deferred Income	228	178	119
Guaranteed Deposits	241	525	600
Compensated Absences Liability	245	26,083	24,105
Total Liabilities		<u>40,726</u>	<u>37,443</u>
Net Resources			
Net Resources - Operations	291	329,806	334,451
Net Resources - Capital Assets	291.1	964,224	991,318
Total Net Resources Available		<u>1,294,030</u>	<u>1,325,769</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,334,756</u>	<u>\$ 1,363,212</u>

**10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE - BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	\$ 180,000	\$ 180,000
Project Reimbursement Funds	319	12,769	172,035
Major Maintenance Fund	330	18,269	20,378
Funding - Other	340	35,000	40,000
Commercial Space	415	20,465	21,365
Carnival	421	53,899	51,055
Concessions	422	53,816	52,507
Exhibits	430	7,582	5,462
Horse Show	440	997	1,584
Fair Attractions	460	44,829	59,800
Miscellaneous Fair	470	33,271	44,262
Interim Revenue	480	166,659	134,142
Prior Year Adjustment	490	843	1,271
Other Revenue	495	26,693	19,496
Total Revenue		<u>655,092</u>	<u>803,357</u>
EXPENSES			
Administration	500	186,597	177,543
Maintenance and Operations	520	240,254	183,874
Publicity	540	19,165	11,850
Attendance	560	11,547	14,707
Miscellaneous Fair	570	7,254	13,510
Miscellaneous Non-Fair	570.05	19,083	29,575
Premiums	580	20,720	20,260
Exhibits	630	18,880	21,476
Horse Show	640	2,534	2,855
Attractions - Fairtime	660	85,833	77,192
Non - Capitalize Expenditure	723	13,580	13,315
Prior Year Adjustments	800	(1,749)	130,620
Cash Over/Short from Ticket Sales	850	-	(13)
Depreciation Expense	900	50,364	55,392
Millennium Expenditures	945	12,769	41,825
Total Expenses		<u>686,831</u>	<u>793,981</u>
RESOURCES			
Net Change - Income / (Loss)		(31,739)	9,376
Resources Available, January 1		1,325,769	1,316,393
Resources Available, December 31		<u>\$ 1,294,030</u>	<u>\$ 1,325,769</u>

**10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE - BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (31,739)	\$ 9,376
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	12,468	(5,054)
Increase (Decrease) in Deferred Income	59	72
Increase (Decrease) in Accounts Payable	1,321	(374)
Increase (Decrease) in Guaranteed Deposits	(75)	(25)
Increase (Decrease) in Compensated Absence Liability	1,978	4,507
Total Adjustments	<u>15,751</u>	<u>(874)</u>
Net Cash Provided (Used) by Operating Activities	<u>(15,988)</u>	<u>8,502</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Buildings & Improvements	29,129	19,075
(Increase) Decrease in Equipment	<u>(2,036)</u>	<u>(3,120)</u>
Net Cash Provided (Used) by Investing Activities	<u>27,093</u>	<u>15,955</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	11,105	24,457
Cash at Beginning of Year	350,948	326,491
CASH AT END OF YEAR	<u><u>\$ 362,053</u></u>	<u><u>\$ 350,948</u></u>

**10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE-BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 10-A District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Tulelake-Butte Valley Fair each year in Tulelake, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no

depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities

to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 200	\$ 200
Cash in Bank – Operating/Payroll	14,001	(8,169)
Cash in Bank - Premium	4,197	4,551
Cash in Bank – Savings	98,655	54,176
Cash in Bank - LAIF	245,000	300,190
	<u><u> </u></u>	<u><u> </u></u>
Total Cash and Cash Equivalents	<u>\$ 362,053</u>	<u>\$ 350,948</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable – Trade	\$ 17,469	\$ 28,883
Accounts Receivable – F&E Funds	-	566
Allowance for Doubtful Accounts	<u>(8,990)</u>	<u>(8,502)</u>
	<u><u> </u></u>	<u><u> </u></u>
Accounts Receivable - Net	<u>\$ 8,479</u>	<u>\$ 20,947</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 2,106,184	\$ 2,088,415
Less: Accumulated Depreciation	<u>(1,205,076)</u>	<u>(1,158,178)</u>
Building & Improvements - Net	<u>\$ 901,108</u>	<u>\$ 930,237</u>
	<u><u> </u></u>	<u><u> </u></u>
Equipment	\$ 206,699	\$ 201,198
Less: Accumulated Depreciation	<u>(196,471)</u>	<u>(193,006)</u>
Equipment - Net	<u>\$ 10,228</u>	<u>\$ 8,192</u>

NOTE 6 RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System

will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE-BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 10-A DAA Board of Directors
1	Chief Executive Officer, 10-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE-BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA

MANAGEMENT REPORT #09-007

YEAR ENDED DECEMBER 31, 2008

10-A DISTRICT AGRICULTURAL ASSOCIATION
TULELAKE-BUTTE VALLEY FAIR
TULELAKE, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

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Michelle Chan

Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER

#09-007

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Joan Haskins, President
Board of Directors
10-A DAA, Tullake-Butte Valley Fair
800 South Main Street
Tullake, California 96134

In planning and performing our audit of the financial statements of the 10-A District Agricultural Association (DAA), Tullake-Butte Valley Fair, Tullake, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Tullake-Butte Valley Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 10-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 10-A DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 10-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 10-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 10-A DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 10-A DAA and compliance with state laws and regulations, we identified three areas with reportable conditions that are considered weaknesses in the Fair's operations: weakness in cash account reporting, weakness in sponsorship agreements, and entertainment taxation withholdings. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 10-A DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

WEAKNESS IN CASH ACCOUNT REPORTING

Our office noted the Fair did not use the correct information to prepare Standard Form 445, Report of Bank/Savings & Loan Association Account Outside the Treasury System. For its operating and premium cash accounts, the Fair reported the June 30, 2008 balances as \$32,798 and \$4,640, respectively, using bank statement balances. However, the State Treasurer's Office (STO) requires the book (general ledger) balance rather than the bank statement balance to be reported for each bank account outside the State Treasury. The book balances in the cash accounts as of June 30, 2008 were: Operating \$610 and Premium \$1,530 per the general ledger. As a result, the Standard 445 Form was overstated by \$34,798.

Recommendation

- 1. Prior to submission to the State Treasurer's Office, the Fair should ensure Standard Form 445, Report of Bank/Savings and Loan Association, reflects the general ledger balance, rather than bank statement balance, at June 30 for each bank account outside the State Treasury.*

WEAKNESS IN SPONSORSHIP AGREEMENTS

Our office noted weaknesses in the Fair's internal control over sponsorships that expose the Fair to loss. Instead of a written agreement outlining all terms and conditions, and signed by both parties, in most instances, the Fair enters into sponsorship agreements by distributing a letter requesting a contribution amount from sponsors. Our office noted the Fair did not always maintain copies of the letter as a source to document the eventual amount received. Furthermore, revisions or amendments made to the amounts requested or eventually received were also not documented. During the year 2008, the Fair received \$20,137 in sponsorship revenue; however, only \$7,500 was documented on a formal written contract signed by both parties. Without proper documentation and approval from both parties, the Fair exposes itself to loss should any dispute arise between itself and the sponsor.

Recommendation

- 2. The Fair should improve its internal controls over sponsorship revenue by preparing written agreements that document all terms and conditions between itself and any potential sponsors. At a minimum, the written agreements should identify the parties, the amount to be paid, conditions of the agreement and a signature by a person for each party. Any changes or subsequent adjustments should be documented and approved by both parties with initials and dates. Finally, all completed sponsorship agreements should be kept on file by the Fair.*

ENTERTAINMENT TAXATION WITHHOLDINGS

An examination of the Fair's payroll taxes & W-2 forms identified the following internal control weakness:

- a. The Fair did not require the independent contractors to submit Form 590, Withholding Exemption Certification, certifying California residency. This form is to certify an exemption from non-resident withholding. The Franchise Tax Board (FTB) requires California residents or entities to complete and submit the Form 590 to the withholding agent, which relieves the withholding agent of withholding requirements unless told by the FTB that the form is not to be relied upon.
- b. In addition, the Fair did not withhold 7% from all payments of California source income made to the non-resident payees receiving greater than \$1,500. Beginning January 1, 2008, all withholding agents must withhold the standard 7% on California source payments to non-residents unless the waiver is obtained from FTB.

Recommendations

3. *The Fair should comply with all FTB requirements by ensuring that all independent contractors are required to submit a completed Form 590, Withholding Exemption Certification, in a timely manner.*
4. *The Fair should ensure that 7% taxes are withheld on California source payments made to non-residents receiving payments greater than \$1,500 and those who did not submit a waiver from FTB.*

NON-REPORTABLE CONDITIONS

CASH ACCOUNTS

The Fair has approximately \$4,075 in checks from its operating and premium cash accounts that have been outstanding for greater than a year. According to the State Administrative Manual (SAM) Section 8042, checks remaining uncashed for over one year can be reverted back to the appropriate cash accounts. Listing and tracking outstanding checks for more than one year complicates the reconciliation process and increases the chances for errors.

Recommendation

To facilitate preparation of its reconciliations, the Fair should comply with SAM and revert checks that have been outstanding for greater than a year back to the appropriate cash account.

STANDARD AGREEMENTS

An examination of the Fair's standard contracts identified the following conditions that demonstrate weakness in compliance with existing State rules and regulations:

- a. The Fair did not complete and submit a list of prospective out-of-state entertainers who received \$1,500 or more to the Franchise Tax Board (FTB), Withholding at Source Unit. The submission of this list is required by FTB and will ensure proper taxation withholdings of entertainers/performing entities by the Fair when required by FTB.
- b. The Fair did not complete form STD 204, Payee Data Record, for all business/individuals (except government agencies) receiving payment from the State of California (Fairs). This form is used in lieu of IRS Form W-9, and should be on file for taxpayer identification purposes.
- c. In addition, the Fair did not prepare Standard 213 Standard Agreements for service contracts exceeding \$10,000. The Division of Fairs and Expositions (F&E) Contract Manual requires Standard 213 Standard Agreements to be prepared for service contracts which are \$10,000 or more.
- d. The Fair did not prepare written justification for multi-year contracts explaining why it is in the best interest of the Fair. According to the F&E Contract Manual, if a contract is multi-year or contains options to renew which if exercised would make the contract multi-year, a written justification explaining why it is in the best interest of the District Agricultural Association must be included in the contract file.

Recommendations

The Fair should comply with existing FTB tax laws by completing and submitting a list of prospective entertainers who receive \$1,500 or more to FTB, Withholding at Source Unit, to ensure proper taxation withholdings.

The Fair should complete Form STD 204, for all individuals who provide service to the Fair. The completion of this form ensures the proper accounting for the tax identification of these individuals. The Fair should comply with State Senate Bill 542, which requires entities to report specified information to the Employment Development Department on independent contractors within 20 days of either making payments totaling \$600 or more or entering into a contract in any calendar year, whichever is earlier, to avoid penalty for failure to comply within the required timeframe.

In future, the Fair should comply with the F&E Contract Manual by ensuring that a Standard 213 is prepared for all service contracts of \$10,000 and greater.

The Fair should comply with the F&E Contract Manual by ensuring that all multi-year contracts or contracts containing renewal options which make the contract a multi-year contract include a written justification explaining why such a contract is in the best interest of the Fair.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



10-A District Agricultural Association

P.O. Box 866 ♦ Tullake, CA 96134
Phone 530-667-5312 ♦ Fax 530-667-3944
tulefair@cot.net ♦ www.tulefair.com

Chief Executive Officer
Dave Dillabo

♦ Board of Directors ♦

Joan Haskins, President
Jennifer Skoog, V. President
Geri Byrne
Russell Criss
John Crowell
Venancio Hernandez
Kathleen Luscombe
Gayle Ratliff

♦ Mission Statement ♦

To be the hub of our rural
agricultural community
showcasing the best of the
people we serve and pursuing
excellence as we provide for
social, educational and
historical needs!

See you at the Fair
September 10-13, 2009!

September 24, 2009

Ron Shackelford, Chief Audit Office
Department of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 96814

Re: Reply to Management Audit Report #09-007

Dear Mr. Shackelford and Audit Staff,

Below are the 10-A DAA plans and timetables for implementing the
auditor's recommendations.

Cash Accounting Reporting:

1. The fair will correctly utilize the balances from the
general ledger for purposes of reporting Form 445, Report of
Bank/Savings and Loan Association.

Sponsorship Agreements:

1. The fair will implement a sponsorship policy and develop
written sponsorship agreements that document all terms and
conditions between the fair and the sponsor.

Entertainment Taxation Withholdings:

1. The fair will properly utilize Form 590, Withholding
Exemption Certification in a timely manner and properly
ensure that 7% taxes are withheld on California source
payments to non-residents receiving payments greater than
\$1500 and who did submit a waiver.

Sincerely,

Dave Dillabo
Chief Executive Officer

Joan Haskins
Board of Director, President

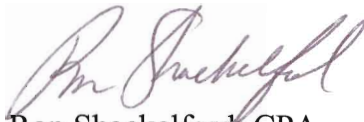
C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 10-A DAA, Tulelake-Butte Valley Fair, for its review and response. We have reviewed the response and it adequately addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between July 20, 2009 and July 30, 2009. My staff met with management on July 30, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

July 30, 2009

REPORT DISTRIBUTION

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